

## **RSC Policy Brief: SCHIP Proposals in FY09 Budget**

*February 25, 2008*

**The RSC has prepared the following policy brief analyzing proposals regarding the State Children's Health Insurance Program in President Bush's Fiscal Year 2009 Budget.**

**Summary:** In submitting his Fiscal Year 2009 Budget request to Congress, President Bush proposed a number of changes to the State Children's Health Insurance Program (SCHIP). As part of this package, the Administration requested a \$19.7 billion increase in federal funding for SCHIP over the next five years.

**Background:** The State Children's Health Insurance Program, established under the Balanced Budget Act (BBA) of 1997, is a state-federal partnership originally designed to provide low-income children with health insurance—specifically, those children under age 19 from families with incomes under 200 percent of the federal poverty level (FPL), or approximately \$40,000 for a family of four. States may implement SCHIP by expanding Medicaid and/or creating a new state SCHIP program. SCHIP received nearly \$40 billion in funding over ten years as part of BBA, and legislation recently passed by Congress in December (P.L. 110-173) extended the program through March 2009 while providing additional SCHIP funds for states.

**Budget Funding Proposal:** The budget proposes an additional \$2.2 billion in SCHIP spending for Fiscal Year 2009, and \$19.7 billion over the five year period. The budget includes outreach grants of \$50 million in 2009, and \$100 million annually for the four succeeding years, for state and local governments as well as community-based organizations to engage in activities designed to increase enrollment of eligible children.

These funding levels significantly exceed the approximately \$5 billion in increased funding proposed by the President in his Fiscal Year 2008 budget last year. The proposal also exceeds the \$1.8 billion in proposed Medicaid savings in Fiscal Year 2009 and \$17.4 billion over the next five years achieved by realigning and simplifying the federal matching percentage for various administrative and family planning services, among other proposed changes.

**Proposed SCHIP Enrollment Levels:** The Department of Health and Human Services' (HHS) Fiscal Year 2009 Budget in Brief document notes that CMS exceeded its 2005 goal of enrolling five million children in the SCHIP program by more than a million children. During FY2006, 4.0 million children on average were enrolled in SCHIP during any given month, and 6.6 million children were enrolled at any time during the year.

In arriving at a top-line budget number for its SCHIP proposal, the budget document also sets assumptions for future year enrollment levels. The proposal notes the fact that the \$19 billion increase in funding proposed by the Administration would fund an average of 5.6 million children in SCHIP per month, and nearly nine million children at some point over the course of a year—both of which constitute increases of nearly a third over 2006 levels. Much of the additional enrollment and spending would stem from the outreach efforts as a result of the \$450 million in grants proposed as part of the Cover the Kids initiative.

The significant increases in enrollment proposed that would result from the Administration's higher budget request seem to be inconsistent with another document commissioned by HHS to study the number of uninsured children. In that report, two researchers from the Urban Institute found that in 2003-2004, only 689,000 uninsured children in families with incomes under 200% FPL were eligible for, but not enrolled in, SCHIP coverage. During the debate over SCHIP's reauthorization last year, Administration officials utilized these data to reject calls from Congressional Democrats for \$35-50 billion in increased SCHIP funding as unnecessary to fund health insurance for all targeted populations.

*Focus on Originally Targeted Populations.* The budget notes a guidance letter issued by the Centers for Medicare and Medicaid Services (CMS) on August 17, 2007 designed to prevent children from dropping private insurance coverage in order to join the government-funded SCHIP—a phenomenon commonly referred to as “crowd-out.” The letter provided several criteria for states seeking to cover children in families with incomes above 250% FPL, including a one-year waiting period of uninsurance for individuals seeking coverage and assurance that the state has enrolled 95% of children below 200% of FPL who are eligible for coverage through Medicaid or SCHIP. The letter, which is consistent with the Administration's stated policy of targeting federal assistance to the low-income children for whom SCHIP was originally created, advised that CMS could pursue corrective action against states that have not worked to implement the guidance within 12 months (i.e. by August 2008). The budget proposes legislation to extend this standard to any state wishing to expand coverage beyond 200% of FPL—the level below which states were supposed to target their SCHIP coverage, according to the original BBA provisions.

In addition, the budget would tighten SCHIP eligibility by clarifying the definition of income. This proposal would eliminate the general “income disregard” system that has caused concern for many conservatives by enabling some states to extend government-financed SCHIP coverage to children in families making above 250-300% FPL (\$50,000-\$60,000 for a family of four). However, states may still create “income disregards” around specific items (e.g. food, housing, etc.).

*Coverage for Adults.* While the Administration's budget proposes to transition adults out of SCHIP, it also proposes to transition adults into Medicaid coverage. Although the federal matching percentage is slightly lower for Medicaid than for SCHIP, some conservatives may remain concerned that the budget's proposed transition out of a program intended for low-income children belies the fact that these adults will remain dependent on public health insurance coverage. Moreover, this proposal echoes language in the Senate SCHIP "compromise," which the Administration twice vetoed (H.R. 976, H.R. 3963) last year.

**Conclusion:** Most conservatives support enrollment and funding of the SCHIP program *for the populations for whom the SCHIP program was created*. That is why in December the House passed, by a 411—3 vote, legislation reauthorizing and extending the SCHIP program through March 2009. That legislation included an additional \$800 million in funding for states to ensure that all currently eligible children will continue to have access to state-based SCHIP coverage.

While the Administration's Fiscal Year 2009 budget includes several reasonable proposals to ensure that SCHIP funds are targeted toward low-income children, the significant increases in proposed funding levels may give some conservatives pause. A study funded by the Department of Health and Human Services itself confirms the impossibility of enrolling more than 1.5 million new children to enroll in SCHIP, given current eligibility guidelines. Therefore, it is an open question whether the nearly fourfold proposed increase in SCHIP funding—coupled with \$450 million in outreach grants to states, localities, and community organizations—will only serve to encourage states to expand government-funded health insurance under the aegis of covering uninsured children.

For further information on this issue see:

- [\*RSC Policy Brief: Health Care Proposals in FY09 Budget\*](#)
- [\*HHS Budget in Brief\*](#)
- [\*August 2007 CMS Letter to State Health Officials on Crowd-Out\*](#)
- [\*HHS-Urban Institute Report on SCHIP Enrollment\*](#)

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